ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
August 1989

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ENERGY DEFLATION AIDS ECONOMY IN THIRD QUARTER

After rising 16% during the first half of 1989, energy prices are now falling at an 8% annual rate during the third quarter. As a result of this moderation, the consumer price index should increase at less than a 3% annual rate in the quarter, while the PPI will actually decline. Although inflation excluding the energy component remains remarkably stable at slightly more than 4%, the decline in energy prices and the return to more moderate food prices is greatly increasing the difficulty of interpreting current economic conditions.

For example, the sluggish growth in real consumer expenditures during the first half can be attributed to the loss of purchasing power from a reduction in deferred income contributions that led to higher taxes in April. Also, with consumer prices expanding 6% and wages growing 4%, the capacity to engage in increased spending programs was significantly compromised. As energy prices declined in the second half and as food prices grew more slowly, the CPI was expected to slow to a gain of only 3% while wages would remain in the 4-4.5% growth range. With no significant tax drains, a surge in consumer spending should be expected.

In fact, retailers have seen some improvement in their sales activity. Back-to-school sales were reported as satisfactory and cautious increases in Christmas ordering appear to be taking place. However, the retail sales figures do not appear to confirm this rebound in consumer spending. Excluding autos, retail sales increased only 0.2% in August. (Certainly, the decline in sales of general merchandisers appears at odds with the increase in sales at apparel and hardware stores and the perceptions that sales were strong late in August. Perhaps, this portion of the retail sales report will be revised upward when September data are released.) Most analysts interpreted that report as a continuation of sluggish consumer spending. However, retail prices in August apparently fell 0.2%. Thus, annualized and adjusted for inflation, consumer spending in August grew a quite acceptable 4-4.5%. Indeed, consumer spending should grow more than 4% for the summer quarter. Coupled with further modest improvement in trade balances, moderate increases in inventories and the absence of further declines in construction, that should translate into real GNP gains of 3%.

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Of course, declining oil prices are not expected to last too much longer. Normally, gasoline prices rise during the summer and decline in the fall. However, many jobbers assumed that the OPEC productions agreements would not hold and had held low inventories of oil and product going into the spring. The Valdez oil spill changed their assessment of oil prices, leading to a surge in inventory rebuilding that generated higher oil prices sooner than normal. Gasoline prices also rose earlier than normal. When the driving season arrived, gasoline prices already had increased more than seasonal demand would have justified. The resulting glut of oil and product as demand slowed caused prices to tumble in the summer. However, as the heating season approaches, inventories again are being accumulated. The result is a gradual rise in oil prices. The result has been some firming in oil prices. As a result, the traditional decline in gasoline prices at the end of the summer driving season may be small. Currently, we are projecting that energy prices will increase 5% during the fall and rise at a 7% annual rate through much of 1990.

When gasoline prices firm, consumer spending should grow more slowly. Also, automobile prices are rising sharply for 1990 models. This has caused consumers to shift purchases to the 1989 models remaining in stock. As those stocks are depleted, auto sales are falling. This weakness will have little impact upon economic activity during the fourth quarter, as producers will be increasing their lots with the new cars. When that is accomplished however, the sluggish sales will lead to production corrections early in 1990. That weakness, in turn, should lead to rising unemployment.

Unfortunately, energy prices will be rising early in 1990, so prices and unemployment should be rising simultaneously. Fortunately, the inflation moderation currently developing should continue to restrain wage gains. As a result, underlying inflation should remain in the 4-4.5% range that has prevailed for several years. Nevertheless, the inflationary moderation that currently is developing because of falling energy prices will have ended. That will also mean that consumer sluggishness could resurface at that time.

To avoid potential recessionary behavior, the Federal Reserve is expected to ease short-term interest rates early next year. Some sympathetic downward move in long-term rates also is expected. Enough stimulus in the interest-sensitive portions of the economy is expected to insure that activity will continue to expand during the second half of next year. Of course, if the Federal Reserve persists in maintaining current interest rates early next year, an economic downturn could develop. In either case, interest rates will decline, although they will fall later and further in the recession scenario.

What should prevent a recession from developing aside from interest rate declines will be some moderate declines in the dollar's value. Thus far, relatively restrictive monetary policy in the United States has increased the attractiveness of dollar based assets. Although the interest rate differential certainly was a factor, expected changes in currency values appears to have been more important. As long as foreign investors could assume that the Federal Reserve would remain relatively restrictive, they could expect further increases in the dollar's value. With higher interest rates and an appreciating dollar, foreigners continued to be attracted to American assets. However, any signs of Federal Reserve ease or relative tightening of monetary conditions in other countries would alter that assessment. Already, European countries are defending their currency values by restricting monetary expansion. These restrictions are beginning to influence the relative attractiveness of those currencies against the yen. As a result, the surge in the dollar's value has stalled.

Any hints of Federal Reserve weakening would bring the dollar down. Such hints remain elusive but should intensify by the end of this year. Thus, the falling dollar may again encourage the growth of foreign markets as long as tight monetary policy does not shrink the size of those markets.

In addition to a rebound in trade following some dollar weakness late this year and early next year, strong spending on capital goods should continue to encourage economic expansion. Order backlogs continue to grow, suggesting that shipments will continue trending upward into the early months of next year. Thus, only a substantial plunge in consumer spending would lead to recession early in 1990. Such a plunge cannot be completely ruled out. However, the degree of consumer spending restraint currently expected should not be sufficient to spawn a recession.

Quarterly Profile of GNP

	1989-2	1989-3	1989-4	1990-1	1990-2	1990-3	1989 Annual	1990 Annual
Real:	2.7	2.8	2.3	1.3	1.4	1.4	2.9	1.7
Price:	4.6	2.9	3.8	4.1	4.7	4.7	3.9	4.3
Nominal:	7.3	5.8	6.3	5.6	6.3	6.2	7.0	6.1

Monthly Statistical Highlights

	Aug 1989	Sept 1989	Oct. 1989
Payroll Employment		+316,000	+172,000
Index of Hours Worked		+0.3%	+0.1%
Household Employment		+347,000	+208,000
Civilian Unemployment Rate		5.2%	5.1%
Personal Income	+0.2%	+0.7%	+0.5%
Savings Rate	5.0%	5.5%	5.6%
Personal Consumption	+0.9%	+0.2%	+0.4%
Retail Sales		+0.4%	+0.0%
Auto Sales		10.9*	9.6*
Housing Starts		+2.8%	+0.4%
Housing Permits		-2.9%	-0.2%
Construction Expenditures	+0.4%	+0.2%	+0.1%
Business Inventories	+0.5%	+0.5%	+0.5%
Orders for Durable Goods	+0.4%	+0.4	-0.7%
Orders - Nondefense Capital Goods	-1.5%	-0.6%	-1.7%
Industrial Production		+0.2%	+0.2%
CPI		+0.4%	+0.3%
PPI		+0.5%	+0.4%
Consumption Deflator	+0.1%	+0.3%	+0.3%
Leading Indicators	+0.6%	+0.1%	-0.2%
Currency Index		+1.0%	-1.2%
Equity Index		-4.0%	-2.4%
Real GNP (annual rate)	+2.3%	+0.6%	+2.3%
M1 (annual rate)		-9.3%	+4.0%
M2 (annual rate)		+5.0%	+6.7%

* auto sales in millions

COMMENTARY

EMPLOYMENT - Although payrolls increased by only 110,000 in August, strikes reduced payrolls by 108,000. Most of those strikes have been resolved. Therefore, a sharp increase in payroll employment is expected next month. The workweek returned to its June levels in August, suggesting that the July increase in hours worked was a fluke. Similarly, some of the increase in July's hourly earnings also may be statistical noise. Weakness in electrical equipment suggests that further softness in durable goods orders could develop in the next few months. Because most of the strike activity was in communications, little change in industrial activity was expected from this moderation in payroll growth.

It should be noted that household employment, which is not effected by strike activity, increased only 138,000. However, this series of employment is notoriously inaccurate on a monthly basis.

PERSONAL INCOME AND OUTLAYS - Although strikes should have little impact upon economic activity, they will reduce wage and salary growth in August. This should reduce savings in the month. Also, auto sales remain strong as a result of consumer shifting from higher priced cars later in the year. This means that auto sales will soar and slump. Already, those manufacturers running out of 1989 model cars have experienced deep sales declines early in September. Because prices are substantially higher for the new automobiles, expenditures will not fall as sharply as units. However, the August strike and auto sales surge should lower savings in that month. The savings rate then should gradually rebound in the next few months.

Weakness in nondurable retail sales does not conform to evidence that back-to-school sales were satisfactory. However, nondurable prices almost certainly fell in that month, suggesting that unit sales were not that sluggish. The discretionary consumer items in durables all showed substantial gains. As a result, consumer wariness is not obvious from the retail sales report. Because of price weakness, consumer spending is expected to grow strongly in August after adjustment for inflation.

Farm income typically reaches its low point prior to the new harvest. However, incomes already have fallen so far that some rebound should be expected. Coupled with increased property income, these gains should permit modest increases in personal income for August.

CONSTRUCTION - Recently, housing starts have been anticipated by housing permits in the previous month. Thus, the August decline in housing starts was apparent from the July collapse in permits for apartment units. Also, July's starts probably included some catch-up from the poor weather in June. August permits suggest that some modest rebound should be expected in September starts for single and multiple units. However, the stall in interest rates probably will prevent any further significant rebound in housing activity until next year.

A rebound is expected in public construction and in housing expenditures in August, as suggested by the increase in hours worked. Further modest increases in construction activity are expected for the remainder of this year and in 1990. The construction cost index is rising slightly less than 4% per year and should continue to do so in this moderate construction climate.

BUSINESS ACTIVITY - Business inventories rose a strong 0.6% in July as manufacturing and retail inventories advanced. Retail inventories should fall slightly in August and September as auto stocks are depleted. However, the drop in commodity prices means that the IVA is hardly increasing. This means that the quality of profits is improving rapidly, but it also means that nearly all of the inventory increase is in units rather than prices. Thus, inventory investments during the third quarter could be larger than in the spring. Although a dip in sales led to a high inventory-sales ratio, strong sales relative to production in August and September should eliminate any serious inventory overhang at this time.

Manufacturing shipments and orders were surprisingly weak in July, as defense orders and shipments fell and electrical equipment orders continued to contract. However, orders for nondefense capital goods continued to grow. Excluding aircraft, orders remained well above shipments, suggesting a rebound in shipments in the fall.

Industrial production was revised upward sharply in June, suggesting that second quarter GNP could be revised further upward. As auto assemblies were a sluggish 6.3 million in August and utility output fell in that month, further increases in industrial activity should be expected through the fall. This means that capacity utilization will remain high. However, capacity has finally begun to accelerate according to the latest report. This should prevent any serious inflationary pressures in most industries in the months ahead.

PRICES - Plunging energy prices are restraining price increases for all the major indices during the summer months. Indeed, the GNP deflator probably will increase less than 3% during the summer. Consumer prices certainly are growing less than 2% while the PPI is actually falling. However, these are price declines that were expected to occur more slowly. Thus, our longer term projections are not altered by the timing of these price declines.

There is some favorable impact from these price declines, however. Many contracts remain tied directly or indirectly to the CPI. Therefore, wage gains will be more moderate in the fall and early next year because of this period of price moderation. Also, the July surge in service inflation was related to small service categories whose prices change only infrequently. Thus, claims that service inflation was intensifying are not justified by this report.

MISCELLANEOUS - Flat prices and rising permits suggest that the leading indicators will rise sharply this month. Also adding to the indicators are initial claims, stock prices and an anticipated rebound in consumer orders. Sensitive prices are beginning to rebound following several weak months, while delivery delays also seem to have increased.

With a sharp decline both in exports and imports, the trade report appears to have been compiled with several days worth of data missing. If so, exports, imports, and the deficit should rebound next month. Certainly, the decline in exports is troubling and may begin to reflect reduced competitiveness from the strengthening dollar. The composition of imports was appropriate for the domestic economy, which is experiencing a rebound in consumer spending and some caution in capital goods purchases. However, capital goods imports should again rebound later in the year. Thus, trade deficits are expected to deteriorate in the next few months.

Little change in interest rates but rising trade deficits may gradually undermine the dollar's strength. Although dollar weakness could become dramatic once any weakness develops, our current estimates suggest that differential interest rates will remain sufficiently strong to prevent any wholesale dollar decline.

Because of the decline in commodity prices, the inventory valuation adjustment (IVA) is expected to be smaller than previously expected. This significantly raises the quality of corporate earnings. Nevertheless, slower economic growth next year should reduce profits while little change in interest rates should undermine stock market values in the next few months. A rebound in the market is expected by midyear and the sell-off should not be substantial, but a modest sell-off is expected.

FINANCIAL MARKETS

A surge in durable goods purchases and a reduction in wage gains from strike activity has caused a decrease in household net savings during the summer months. Modest gains in housing activity could generate some mortgage investment in the fall. Further housing gains are expected early next year. As a result, the household sector has reduced its support to the credit markets in the summer and should only modestly add to net savings early next year.

Following the surge in tax collections during the spring, the federal government has been trying to prevent a surge in borrowings through the summer. However, the thrift bailout bill requires the acquisition of more than $20 billion of deposit support before the end of the current fiscal year. This means that federal deficits are rising significantly at this time. To be sure, most of the thrift bailout results in a portfolio shift, as federal funds replace deposits in support of assets. The interest rate pressures were incurred when those assets were accumulated. Nevertheless, the portfolio shifts lead to declines in checkable deposits and to the substitution of long-lived liabilities for short-term liabilities. This should result in a slightly steeper yield curve than otherwise would have developed. Also, the increased government borrowings as tax collections fall off should increase interest rate pressures.

Corporate borrowings intensified early in the third quarter, as inventories grew and operating profits were squeezed. However, the decline in commodity prices has eased the financing of inventories while strong consumer spending has increased operating profits. Therefore, the corporate sector has been able to supply more funds to credit markets late in the quarter. Later in the year, rising commodity prices and rising auto inventories could again put upward pressures upon interest rates. Then inventory reductions early next year should lead to reduced interest rate pressures.

Of course, foreign investors remain attracted to American assets. Therefore, the shift in government borrowings has been offset by increased demand for American assets by foreigners. However, a falling dollar late this year could reduce foreign support. As a result, some rising interest rate pressures could develop. However, the weakness in corporate borrowings early in 1990 should more than offset the foreign impact. Thus, some modest declines in interest rates are expected at that time. Interest rates then are expected to stabilize during the second half of next year at lower rates than currently prevail.

EQUITY MARKETS - Once every few months, the stock market is susceptible to "whistling in the dark." According to our analysis, the market currently commands a premium for the asset value of potential takeover candidates. However, those asset values are based upon financing arrangements that recently have priced some assets so highly that cash flow did not cover current interest rate requirements. Asset sales or balloon (or in-kind) interest rates were needed to make the deal. But growth tends to slow after corporate restructurings, leading to reduced ability to finance those deals. This overpricing of assets has become more apparent as the newly created junk bonds have become more suspect. Except in the airlines, the stock market appears to have ignored this new truth in asset values. For this reason, a stock market correction is expected in the next few weeks.

However, any correction should be limited as the quality of earnings is again improving and strong sales growth should add to operating profits late this year. Our current projections suggest the correction will be about 12% over the next six months.

Of course, those companies without inflated asset values should benefit from improved operating profits and could actually experience some gains in stock market values even as the correction is developing. Some interest sensitive and building material based industries could perform well. Utilities appear to have better than average opportunities for advancement. New products at the November Comdex association could re-ignite interest in the technology issues. Some of the nonferrous metals producers also should perform well, although precious metals still appear to be in a downdraft.

On balance, stock profits should be taken, especially in those takeover possibilities. Some increase in bond holdings may be appropriate, although the especially narrow spreads between agencies and government securities suggest that treasuries could be more beneficial. The spreads on high yield bonds have climbed to nearly 6%, which should compensate for more than 3% annual defaults in such portfolios. In the absence of recession, this spread should be adequate for investing in higher quality junk bonds. However, coupons in excess of 15% should be shunned, as such interest rate commitments exceed the normal expectations of earnings on capital. Without a significant equity base to support such bonds, defaults are likely. In short, the markets are generating substantial opportunities, but investors must now be selectively rather than buy the market.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	108101	108101	128.7	128.7	117113	117113	5.3	5.3	9.61	9.61
May	108310	108310	127.6	127.6	117215	117215	5.2	5.2	9.60	9.60
June	108560	108607	128.0	128.1	117541	117541	5.3	5.3	9.62	9.62
July	108793	108791	128.4	129.2	117743	117459	5.2	5.2	9.68	9.70
August	108884	108901	128.7	128.5	117929	117597	5.2	5.2	9.72	9.69
September	109125	109217*	129.0	128.9*	118115	117844*	5.1	5.2*	9.77	9.73*
October	109316	109389	129.1	129.0	118328	118052	5.1	5.1	9.81	9.77
November	109506	109578	129.3	129.2	118524	118240	5.1	5.2	9.85	9.82
December	109698	109805	129.5	129.4	118720	118467	5.1	5.1	9.88	9.85
January 1990	109843	109994	129.7	129.6	118896	118708	5.2	5.1	9.94	9.88
February	110015	110107	129.6	129.6	119046	118829	5.2	5.2	9.98	9.92
March	110187	110210	129.7	129.7	119195	118964	5.1	5.3	10.02	9.95
April	110326	110391	130.0	130.0	119353	119163	5.1	5.3	10.06	9.99
May	110469	110562	130.2	130.2	119517	119336	5.1	5.3	10.11	10.03
June	110615	110743	130.5	130.4	119668	119494	5.2	5.4	10.16	10.07
July	110736	110916	130.4	130.5	119814	119692	5.2	5.4	10.20	10.11
August	110881	111104	130.5	130.8	119966	119879	5.2	5.4	10.24	10.16
September	111026	111288	130.7	131.0	120118	120100	5.2	5.3	10.29	10.21

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	4.387	4.387	2.601	2.601	183.3	182.3	3.718	3.718	3.535	3.536
May	4.395	4.396	2.604	2.604	203.5	193.4	3.747	3.747	3.543	3.553
June	4.407	4.416	2.617	2.621	224.1	215.8	3.769	3.776	3.545	3.560
July	4.435	4.449	2.640	2.647	225.0	217.7	3.795	3.804	3.570	3.587
August	4.458	4.458*	2.651	2.644*	226.3	191.8*	3.813	3.810*	3.587	3.618*
September	4.481	4.489	2.662	2.663	224.1	210.6	3.831	3.836	3.607	3.625
October	4.503	4.513	2.680	2.676	234.6	215.9	3.850	3.855	3.615	3.639
November	4.527	4.531	2.698	2.695	232.7	209.6	3.871	3.868	3.638	3.658
December	4.551	4.553	2.716	2.708	230.8	208.1	3.892	3.885	3.661	3.677
January 1990	4.575	4.572	2.730	2.722	232.4	214.5	3.911	3.907	3.679	3.693
February	4.602	4.594	2.745	2.734	234.0	213.0	3.932	3.926	3.698	3.713
March	4.629	4.617	2.760	2.746	233.2	209.1	3.953	3.945	3.720	3.736
April	4.649	4.646	2.776	2.764	223.4	209.1	3.970	3.958	3.747	3.749
May	4.672	4.673	2.794	2.781	216.0	221.4	3.983	3.989	3.767	3.768
June	4.695	4.700	2.812	2.797	224.5	228.3	3.996	4.010	3.771	3.782
July	4.710	4.724	2.825	2.812	230.3	223.9	4.020	4.027	3.790	3.803
August	4.729	4.764	2.838	2.832	231.7	239.7	4.045	4.064	3.813	3.824
September	4.749	4.791	2.851	2.851	233.1	244.0	4.070	4.086	3.837	3.842

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	3433.2	3433.5	477.3	477.2	1113.2	1112.9	1841.7	1843.4	2652.5	2653.3
May	3440.2	3450.2	467.7	466.6	1118.1	1126.7	1854.4	1856.9	2647.8	2655.5
June	3441.4	3456.8	466.0	469.2	1118.5	1126.5	1856.9	1861.1	2644.3	2657.2
July	3468.2	3482.2	468.5	476.8	1126.4	1131.1	1873.3	1874.3	2657.6	2670.6
August	3483.4	3513.5*	470.1	490.0*	1128.7	1137.3*	1884.6	1886.2*	2663.2	2690.9*
September	3495.9	3520.3	468.9	480.9	1131.1	1141.8	1895.9	1897.6	2666.6	2687.4
October	3509.8	3533.5	465.0	477.7	1136.5	1146.7	1908.3	1909.1	2667.0	2689.3
November	3531.3	3552.4	467.0	479.6	1142.3	1152.1	1922.0	1920.7	2671.2	2694.9
December	3552.8	3570.4	469.0	481.7	1148.1	1157.3	1935.7	1931.4	2675.3	2698.6
January 1990	3571.6	3585.1	469.7	479.7	1154.1	1162.5	1947.8	1942.9	2679.4	2699.3
February	3590.1	3605.2	471.2	482.9	1159.3	1167.7	1959.6	1954.6	2685.2	2704.3
March	3608.8	3627.7	472.9	488.1	1164.5	1172.4	1971.4	1967.2	2691.1	2710.6
April	3631.7	3640.3	477.2	484.8	1170.2	1177.0	1984.3	1978.5	2698.1	2709.8
May	3653.2	3658.6	478.6	486.6	1176.4	1181.2	1998.2	1990.8	2702.1	2712.7
June	3676.0	3672.7	481.3	484.4	1182.6	1185.5	2012.1	2002.8	2706.9	2712.4
July	3685.4	3693.6	473.9	488.5	1187.3	1190.5	2024.2	2014.6	2703.9	2717.8
August	3702.1	3714.3	473.7	492.2	1192.4	1195.5	2036.0	2026.6	2708.2	2723.5
September	3722.1	3731.0	477.0	491.7	1197.3	1200.2	2047.8	2039.1	2712.9	2724.9

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	141.07	140.94	22.41	22.41	10.8	10.8	87.30	87.12	31.36	31.41
May	142.10	142.54	22.97	22.97	10.2	10.1	88.20	88.40	30.93	31.17
June	142.17	142.50	22.79	22.85	10.0	9.9	88.66	88.48	30.72	31.17
July	142.49	143.27	22.84	22.75	10.0	10.2	88.83	88.83	30.82	31.69
August	142.85	144.29	22.70	23.26	10.6	11.5	89.01	88.52	31.14	32.50
September	142.91	144.82*	22.71	23.03*	10.6	10.9*	89.20	89.74*	31.00	32.05*
October	142.88	144.84	22.80	23.12	9.4	9.6	89.62	90.13	30.46	31.59
November	143.57	145.48	22.88	23.16	9.7	9.7	90.08	90.55	30.61	31.77
December	144.26	146.13	22.96	23.22	9.8	9.8	90.54	90.96	30.76	31.95
January 1990	144.81	146.31	22.90	23.08	9.7	9.7	91.01	91.37	30.90	31.86
February	145.39	147.09	22.98	23.18	9.8	9.9	91.42	91.78	30.99	32.13
March	145.99	148.05	23.04	23.24	9.9	10.2	91.83	92.15	31.12	32.66
April	146.94	148.04	23.00	23.25	10.0	10.0	92.28	92.51	31.66	32.28
May	147.59	148.57	23.07	23.38	10.0	10.0	92.77	92.84	31.75	32.35
June	148.39	148.66	23.14	23.33	10.2	9.9	93.26	93.18	31.99	32.15
July	147.91	149.52	23.02	23.44	9.7	10.1	93.63	93.57	31.26	32.51
August	148.29	150.33	23.08	23.39	9.6	10.6	94.03	93.96	31.18	32.98
September	149.05	150.65	23.15	23.48	9.7	10.5	94.42	94.33	31.48	32.84

Fore. = August forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	1.343	1.343	1.029	1.029	1.334	1.334	415.8	415.8	345.0	345.0
May	1.309	1.308	0.977	0.977	1.347	1.347	418.2	418.2	346.2	346.2
June	1.400	1.406	0.975	0.972	1.300	1.308	414.7	414.7	342.7	342.7
July	1.404	1.424	0.989	1.029	1.305	1.281	419.5	419.2	345.0	344.2
August	1.422	1.353	1.005	1.003	1.315	1.326	421.4	420.7*	344.8	344.3*
September	1.439	1.391*	1.021	1.026*	1.332	1.288*	423.8	421.6	344.8	343.9
October	1.445	1.396	1.025	1.025	1.329	1.286	426.5	422.1	346.2	343.2
November	1.461	1.372	1.021	0.996	1.345	1.277	429.8	424.6	348.6	345.2
December	1.456	1.394	1.029	1.002	1.347	1.285	433.3	424.6	350.9	343.8
January 1990	1.443	1.401	1.025	1.013	1.328	1.294	434.5	426.3	350.4	344.1
February	1.461	1.413	1.028	1.025	1.343	1.304	436.2	430.0	349.8	345.9
March	1.478	1.408	1.031	1.022	1.351	1.302	438.1	430.9	349.6	345.3
April	1.485	1.437	1.033	1.043	1.366	1.326	440.1	431.8	350.1	344.9
May	1.481	1.450	1.038	1.056	1.374	1.342	442.4	436.2	350.6	347.0
June	1.477	1.443	1.036	1.048	1.365	1.341	445.3	437.9	351.7	347.0
July	1.466	1.463	1.031	1.056	1.355	1.353	448.0	439.6	352.5	347.2
August	1.474	1.467	1.025	1.050	1.366	1.361	449.3	441.2	352.1	347.1
September	1.482	1.473	1.020	1.062	1.378	1.367	451.4	443.3	352.4	347.4

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	131.4	131.4	80.4	80.4	204.0	204.0
May	133.3	133.1	84.7	85.1	200.2	201.0
June	136.1	135.1	80.6	81.9	197.9	198.6
July	137.0	136.5	83.0	80.9	199.5	198.2
August	136.6	135.8*	83.9	82.4*	200.9	201.0*
September	136.5	136.0	84.8	83.3	202.5	201.4
October	137.1	136.3	83.8	83.8	205.6	201.5
November	137.7	136.5	83.3	84.0	208.8	201.6
December	138.4	137.2	82.9	84.4	212.0	203.0
January 1990	138.0	137.5	83.3	84.3	213.2	204.5
February	138.8	138.1	83.7	84.8	213.7	207.1
March	139.6	138.5	84.2	85.2	214.3	207.2
April	140.0	138.2	84.0	85.5	216.1	208.1
May	139.6	138.6	84.2	86.0	218.6	211.6
June	140.2	139.0	84.1	86.3	221.0	212.6
July	140.6	139.6	85.2	86.6	222.2	213.4
August	141.6	140.3	85.0	86.9	222.7	214.0
September	142.5	140.8	85.6	87.3	223.3	215.2

Fore. = August Forecast
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* = This item and those beyond it are projections.

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	363.5	363.5	129.37	129.37	40.39	40.39	34.60	34.60
May	365.1	365.1	123.68	123.52	37.29	37.29	34.53	34.53
June	366.2	366.5	124.19	125.14	37.39	39.15	34.59	34.76
July	369.3	370.4	125.43	122.42	36.69	41.37	34.82	34.46
August	371.3	372.7*	126.17	122.91*	36.73	40.76*	35.03	34.42*
September	373.2	374.3	125.84	123.46	36.45	40.51	35.24	34.53
October	375.3	375.9	124.76	123.12	35.64	39.82	35.06	34.16
November	377.4	377.4	124.43	123.65	35.24	40.59	34.93	34.78
December	379.5	379.0	125.89	124.74	35.82	40.62	35.12	35.03
January 1990	381.2	380.4	126.14	122.96	35.98	39.43	35.66	34.46
February	383.2	381.6	127.35	123.15	36.27	40.27	35.87	35.13
March	385.1	383.2	127.53	123.36	36.41	40.65	35.94	35.53
April	386.0	385.0	128.56	124.95	36.98	40.85	36.45	35.83
May	386.9	386.5	128.85	124.98	37.23	40.27	36.51	35.81
June	387.8	387.8	129.18	125.15	37.64	40.82	36.69	36.04
July	388.6	389.1	130.14	126.33	37.83	41.36	36.81	36.43
August	389.6	390.5	130.42	126.14	37.95	40.93	36.95	36.62
September	390.5	392.0	129.64	126.01	37.82	40.52	36.90	36.94

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	771.3	771.3	8.63	8.63	141.6	141.7	84.1	84.2
May	778.1	778.1	8.70	8.70	141.4	141.6	83.8	84.0
June	780.8	780.8	9.20	9.23	141.1	141.9	83.5	83.9
July	783.3	785.5	8.86	8.19	141.4	142.0	83.5	83.8
August	785.1	789.4*	8.94	8.56*	141.8	142.4	83.6	83.8
September	787.0	793.1	9.02	8.84	142.2	142.7*	83.7	83.8*
October	792.6	796.7	9.06	8.95	142.7	143.0	83.8	83.8
November	798.0	799.9	9.11	8.79	143.2	143.2	83.9	83.7
December	803.4	803.6	9.16	8.94	143.6	143.5	84.0	83.8
January 1990	806.5	806.7	9.12	9.01	143.1	143.8	83.3	83.8
February	809.5	809.2	9.15	9.05	142.5	144.0	82.7	83.7
March	813.6	812.8	9.19	9.09	142.5	143.7	82.4	83.3
April	817.9	817.4	9.12	9.03	143.0	143.9	82.5	83.4
May	822.2	820.9	9.07	9.10	143.6	144.2	82.6	83.4
June	825.4	823.7	9.08	9.06	144.1	144.5	82.6	83.4
July	825.8	826.5	9.16	8.93	143.3	144.2	82.2	83.0
August	826.1	829.5	9.30	8.96	142.8	144.5	82.2	83.0
September	826.5	832.7	9.45	9.02	142.9	144.9	82.1	83.1

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	123.3	123.3	113.1	113.1	111.8	111.7	125.5	125.5
May	124.0	124.0	114.1	114.1	112.3	112.4	126.1	125.9
June	124.2	124.2	113.9	114.0	112.2	112.3	126.4	126.2
July	124.7	124.4	113.7	113.5	112.0	112.2	126.7	126.5
August	125.0	124.4	113.5	113.0	112.1	111.7	127.0	126.7
September	125.3	125.1*	114.0	113.7*	111.6	111.4*	127.5	127.1
October	125.8	125.5	114.3	114.3	112.6	112.3	128.0	127.5
November	126.2	125.9	114.6	114.8	112.9	112.8	128.5	128.0
December	126.6	126.4	114.9	115.1	113.3	113.4	129.0	128.5
January 1990	127.0	126.9	115.2	115.4	114.0	114.0	129.4	129.1
February	127.5	127.4	115.5	115.8	114.6	114.5	129.8	129.6
March	128.0	127.9	115.8	116.2	115.2	115.0	130.2	130.1
April	128.5	128.4	116.3	116.6	115.7	115.5	130.7	130.6
May	129.0	128.9	116.8	117.0	116.1	115.9	131.1	131.1
June	129.5	129.3	117.2	117.3	116.5	116.3	131.6	131.6
July	130.1	129.8	117.7	117.7	117.0	116.8	132.0	132.1
August	130.8	130.3	118.2	118.2	117.4	117.3	132.5	132.6
September	131.5	130.8	118.7	118.6	116.5	116.6	133.0	133.1

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	129.4	129.4	111.0	110.9	122.8	122.8	140.0	140.0	120.5	120.5
May	129.9	129.9	110.9	110.7	123.6	123.6	140.4	140.4	120.8	120.8
June	130.1	130.1	111.1	110.9	123.4	123.5	140.8	140.8	121.0	121.0
July	130.5	130.4	111.3	111.2	123.5	123.3	141.3	141.5	121.6	121.4
August	130.8	130.6*	111.5	111.5*	123.6	123.2*	141.8	142.0*	122.2	121.8*
September	131.1	131.0	111.8	111.9	123.8	123.3	142.4	142.5	122.9	122.2
October	131.6	131.4	112.0	112.0	124.2	123.6	143.0	143.0	123.2	122.6
November	132.2	131.8	112.2	112.0	124.7	124.0	143.6	143.6	123.3	123.0
December	132.8	132.3	112.4	112.3	125.2	124.4	144.2	144.2	123.5	123.5
January 1990	133.3	132.8	112.4	112.4	125.6	124.9	144.8	144.8	124.0	123.9
February	133.7	133.3	112.6	112.6	126.0	125.4	145.4	145.4	124.7	124.3
March	134.1	133.8	112.7	112.8	126.5	126.0	146.0	146.0	125.3	124.8
April	134.6	134.3	113.0	113.0	127.1	126.4	146.6	146.6	125.7	125.2
May	135.2	134.9	113.3	113.3	127.6	126.9	147.2	147.2	126.2	125.7
June	135.8	135.4	113.5	113.5	128.0	127.4	147.8	147.8	126.6	126.2
July	136.3	135.9	113.7	113.7	128.4	127.8	148.4	148.5	127.1	126.6
August	136.7	136.4	114.0	114.0	128.7	128.2	149.0	149.1	127.6	127.1
September	137.2	136.9	114.3	114.3	129.1	128.7	149.6	149.7	128.1	127.6

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators	Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)	
	Fore.	C.E.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	-8.29	-8 29	145.6	5175	5186	4124	4132	-35.3	-34.9
May	-8.83	-10.08	143.7	5197	5208	4121	4137	-18.4	-18.9
June	-8.71	-8.01	143.7	5211	5217	4123	4134	-15.3	-14.3
July	-8.73	-7.58	144.0	5246	5245	4140	4146	-19.9	-10.6
August	-8.45	-8.41*	144.9*	5273	5263	4152	4154	-20.1	- 3.4
September	-8.93	-8.77	145.0	5301	5282	4158	4156	-19.2	- 5.8
October	-8.66	-9.04	144.7	5334	5309	4167	4164	-20.6	-11.3
November	-8.73	-8.55	144.3	5367	5340	4177	4172	-21.4	-13.5
December	-8.81	-8.46	144.6	5399	5368	4185	4177	-23.3	-14.4
January 1990	-8.16	-8.32	144.8	5416	5399	4185	4182	-31.1	-19.1
February	-8.05	-8.23	144.5	5428	5422	4182	4184	-30.2	-20.6
March	-7.95	-8.26	144.7	5441	5441	4179	4182	-27.6	-22.5
April	-8.16	-8.17	145.0	5477	5474	4191	4191	-21.1	-22.2
May	-8.24	-8.05	144.8	5512	5500	4204	4195	-14.9	-23.8
June	-8.36	-8.26	145.0	5547	5529	4215	4201	-16.7	-27.4
July	-8.12	-8.11	145.3	5563	5551	4214	4202	-20.6	-26.4
August	-8.28	-8.23	145.6	5582	5582	4213	4210	-25.3	-24.5
September	-8.36	-8.13	145.4	5602	5611	4212	4216	-29.9	-24.2

	Currency Index		Adjusted Profits		30-Year Government Bonds		New York Composite	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	97.24	97.24	165.9	167.8	8.89	9.03	170.34	169.38
May	100.81	100.81	176.2	178.7	8.85	8.83	175.56	175.30
June	103.09	103.09	177.3	180.3	8.46	8.27	180.90	180.76
July	98.43	99.12	178.4	185.3	8.31	8.08	188.43	185.15
August	97.12	100.44	171.7	187.9	8.22	8.12	187.72	192.83
September	95.76	101.46*	164.0	183.4	8.13	8.14*	185.43	185.10*
October	94.43	100.22	168.5	178.4	8.18	8.11	185.67	180.72
November	94.82	99.84	170.4	173.2	8.12	8.19	183.19	173.74
December	95.36	99.63	172.1	170.9	8.15	8.12	180.74	172.91
January 1990	96.25	96.72	164.8	166.2	7.81	7.93	172.25	172.18
February	95.46	95.83	160.1	162.4	7.73	7.84	165.76	170.18
March	94.86	95.64	158.2	158.7	7.68	7.85	159.50	172.24
April	93.26	96.28	165.5	164.3	7.72	7.73	158.77	178.53
May	92.94	95.88	171.2	168.2	7.66	7.75	159.38	182.30
June	92.96	98.43	171.5	171.3	7.70	7.83	163.46	183.76
July	92.15	97.24	167.3	166.2	7.68	7.78	162.53	186.42
August	91.82	95.54	161.6	168.3	7.63	7.88	165.12	188.93
September	91.56	95.42	155.8	167.9	7.69	8.07	167.83	185.56

Fore. = August forecast
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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	289.1	289.0	783.1	783.1	3081.1	3080.6	9.84	9.84	8.65	8.65
May	289.0	289.0	773.3	773.3	3071.8	3072.1	9.81	9.81	8.39	8.39
June	289.6	289.7	770.5	770.3	3087.3	3087.9	9.47	9.53	8.04	7.93
July	290.9	290.5	777.2	777.3	3119.1	3117.2	9.23	9.24	7.89	7.61
August	293.8	290.7	783.2	777.7	3136.1	3136.0	9.11	8.99	7.63	7.74
September	296.7	291.1*	787.4	771.4*	3153.2	3148.7*	8.99	8.93*	7.70	7.8*
October	298.0	292.6	790.7	773.9	3171.6	3165.7	8.73	8.95	7.75	7.80
November	299.2	294.0	794.4	778.4	3190.3	3182.0	8.77	8.91	7.79	7.73
December	299.9	295.3	797.8	781.6	3209.0	3198.3	8.70	8.88	7.80	7.59
January 1990	301.8	296.9	800.4	787.2	3223.6	3215.6	8.33	8.67	7.42	7.43
February	303.3	298.5	803.7	790.1	3237.2	3233.8	8.13	8.43	7.38	7.22
March	304.9	300.1	807.0	794.0	3250.9	3250.6	7.94	8.26	7.34	7.26
April	306.5	302.0	813.3	797.7	3272.1	3267.4	7.87	8.26	7.19	7.19
May	307.9	303.7	818.4	801.2	3294.0	3283.9	7.83	8.23	7.15	7.17
June	309.3	305.5	823.5	805.4	3315.8	3300.6	7.80	8.25	7.11	7.04
July	311.0	306.6	828.4	807.3	3331.6	3317.5	7.76	8.02	7.01	6.97
August	312.4	308.0	831.8	810.2	3352.5	3332.8	7.73	7.99	7.00	7.03
September	314.2	309.5	835.1	814.6	3373.3	3346.9	7.79	8.03	7.06	7.12

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	9.79	9.79	7.49	7.49	9.81	9.81	9.94	9.94	11.50	11.50
May	9.57	9.57	7.25	7.25	9.47	9.47	9.59	9.59	11.50	11.50
June	9.20	9.10	7.03	7.02	9.12	9.11	9.32	9.20	11.07	11.07
July	8.99	8.94	6.85	6.96	9.17	8.68	9.35	8.76	10.83	10.98
August	8.95	8.96	6.84	7.06	9.05	8.57	9.26	8.64	10.50	10.50
September	8.90	8.93*	6.80	7.11*	8.96	8.78*	9.15	8.85*	10.50	10.50*
October	8.90	8.98	6.81	7.13	8.70	8.83	8.91	8.94	10.50	10.50
November	8.83	9.06	6.73	7.22	8.76	8.81	8.97	8.97	10.50	10.50
December	8.76	9.03	6.67	7.15	8.68	8.78	8.92	8.94	10.50	10.50
January 1990	8.63	8.76	6.55	6.97	8.26	8.53	8.52	8.68	10.03	10.50
February	8.57	8.69	7.48	6.88	8.08	8.38	8.23	8.52	9.57	10.13
March	8.43	8.72	6.35	6.93	7.88	8.22	8.05	8.39	9.50	10.00
April	8.56	8.65	6.46	6.89	7.79	8.23	7.93	8.40	9.50	10.00
May	8.63	8.67	6.54	6.90	7.85	8.17	7.99	8.33	9.50	10.00
June	8.60	8.73	6.55	6.99	7.84	8.21	7.98	8.37	9.50	10.00
July	8.46	8.76	6.41	7.04	7.71	7.94	7.89	8.14	9.50	9.79
August	8.39	8.85	6.35	7.15	7.75	7.96	7.92	8.16	9.50	9.75
September	8.50	9.02	6.49	7.34	7.82	8.08	7.97	8.22	9.50	9.75

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